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PRICE CONTROL OF FARM PRODUCTS IN SWEDEN

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Price Control of Farm Products in Sweden

Summary

Sweden's wartime farm policies were based on the following major considerations:

1. An adequate overall supply of farm products was of primary importance.
2. A positive program for the mobilization and allocation of factors of production in farming had to be devised.
3. A positive program for price differentials should be used to ensure the desired composition of the farm output and to reinforce allocation and other control measures.
4. The farm population should receive incomes at parity with those obtainable in other fields.
5. The stabilization of farm prices was necessary in order to stabilize the cost of living and to preclude a vicious circle of rising food prices and rising wages.

Direct measures, not price increases, used to bring forth the desired total supply: Sweden's attitude is essentially that the general price conditions for an adequate supply of farm products are fulfilled through a guarantee of fair and equitable income to the farm population. The general level of farm prices is determined almost exclusively with a view to the desirable level of farm income rather than with reference to its effect upon total output. Emphasis is placed on direct measures relating to the mobilization of manpower, equipment, feeds, and fertilizer resources with a view to increasing production.

A positive program for farm price differentials: Price control is used as an active weapon, supplementing and reinforcing direct measures, in determining the allocation of productive resources between animal and vegetable produce and between various crops. Price differentials between major crops are fixed in advance of the growing season, while the absolute level of prices received by farmers is made dependent upon actual

physical crop returns. The basic principle in the price differential program is to encourage the growing of "bread crops" as compared with "fodder crops" and to increase the profitability of milk production as compared with other animal production.

General farm price level fixed annually with a view to the stabilization of farm income. Full compensation given for cost increases, partial compensation for reduced crop yields: The general price program for farm products provides that in years of poor harvest, farmers should accept such net income reductions as may result from an estimated normal deviation in crop yields of about 4 per cent, but that they should receive full compensation for increases in direct costs.

Incomes of the farm population and of industrial labor. Only partial compensation given for the rising cost of living. Since the outbreak of war, there has been a minimum increase of 25 per cent in the total income of the agricultural population. This corresponds to an estimated increase in the cost of living between July 1939 and April 1942 of about 40 per cent. Increases in the real wage rates of industrial workers probably average about 20 per cent. It is interesting to note that in spite of the political dominance of labor, industrial laborers have apparently accepted a greater cut in their real income. The smaller sacrifices required from the farm population may be due to the fact that most of the lower income groups in Sweden are to be found in farming and to the vital necessity of ensuring an adequate food supply. A final answer on this point, however, would require a more intensive study of Sweden's wartime economy policy than can be undertaken on the basis of the material now available in this country.

Subsidies used to offset the effect of rising farm prices upon the cost of living: It is the announced policy of the Swedish government that compensation to farmers for cost increases or lower crop yields should not generally take such a form as to cause an increase in the cost of foods to consumers. The techniques used in securing the desired income adjustments to farmers are outright subsidies, purchases of farm products by the government at prices below its resale to processors or outright price increases. In this latter case, however, the effect of price increases upon the cost of living has generally been cancelled through a subsidy at some later stage of production or distribution or at the consumer level. Table III gives a summary of the subsidy programs for the three years ending August 31, 1942.

A positive program for consumers. Prices for cost of living commodities subsidized. High indirect taxes levied on semi-luxuries. Rebates to low-income groups. The cost of living in Sweden in 1942 was 38 per cent above the 1939 average. About one-fourth of this increase can be traced to increased prices for farm products. But for the subsidies, the cost of living index would have been up to at least 146. But for the increased indirect taxes it would have been below 134. It should be observed that the very considerable sums spent to keep down the prices paid by farmers for fodder and fertilizer are not considered in the above computations nor the subsidies used to stabilize rents at approximately the 1939 level. The tax and subsidy program (cf. Table IV) is so geared as to prevent hardships to the lowest income groups. Not quite one-half of the tax increases fall upon the income tax and very close to one-third represent taxes on items which are not generally classified among the essentials of living. On the other hand, all subsidies are for essentials of living (milk, butter, cheese, and bread). Finally a very considerable part of the subsidy for milk and eating fats are rebates, for which only the poorest third or so of the population qualify.

Price Control of Farm Products in Sweden

General Economic Background for Farm Program

To gain a proper perspective on the Swedish farm program, it will be necessary to go back to the period prior to the outbreak of World War II. It has long been a fundamental tenet of Swedish economic policies that agriculture must be encouraged to a point where a high degree of self-sufficiency in vital foods is ensured. It was in this tradition and for obvious reasons of equity that the agricultural program of the early 1930's was adopted. The immediate objective of this program, involving an intricate system of subsidies, customs duties, fees, and taxes, was to cushion the impact on the Swedish farmer of the world market depression in agricultural prices. The vitality of Swedish agriculture under these measures was such as to make it a central problem for Swedish farm policy in the late 1930's to find a market for Sweden's rapidly expanding output of animal produce, above all milk, at prices commensurate with a reasonable standard of living in farming.

This did not mean, however, that Sweden had become independent of other countries for its supply of vital foods. At the outbreak of the war, Sweden was almost completely dependent upon imports for its supply of three key fertilizers. Nitrates, potassium salts, and phosphates were obtained in the main from, respectively, Norway, Germany, and the United States. The second major deficiency in Swedish agriculture is in feeds. The most important imported feeds, oil-cakes and maize are purchased in the Western Hemisphere. A reduction in the supply of these feeds would mean a serious threat to the production of milk and pork.

Three factors of fundamental importance for the farm program were projected into the normal peace-time background by World War II. The double blockade meant a loss of efficiency in the economy as a whole and a forced reduction in the standard of living. Sweden had been used to exchanging as much as one-third to one-fourth of its total production in the world market. The volume of imports, taking the period Jan.-May 1939 as 100, fell to 40 in the corresponding period of 1942. A further reduction in the standard of living was made inevitable by the diversion of resources into the direct defense effort. Defense expenditures which amounted to Kr. 322,000,000 ^{1/} in the fiscal year 1939-40 exceeded Kr. 500,000,000 in each of the following three fiscal years. A third factor was a succession of two poor harvests unparalleled in the history of the nation. If the average of the three-year period 1937-39 is taken as 100, the total yield in "harvest units" would be 71.2 in 1940 and 59.3 in 1941.

Three Basic Determinants of Price Control for Farm Products

In its report on the economic outlook in the spring of 1940, the Swedish Business Cycle Institute, an agency of the Swedish Government, outlined three basic considerations which would of necessity have to guide war-time price policies for farm products.

(1) Supply of farm products. It would be necessary to provide an incentive for the growing of certain crops of vital importance in the Swedish war economy. It might be advisable to fix prices which would more than compensate farmers for actually incurred increases in the direct costs of

^{1/} The foreign exchange value of the Swedish "Krona" is approximately 25 U.S cents. The real internal purchasing power is almost twice that amount.

growing and marketing certain crops. The Government, because of its control over farm prices as well as over certain cost elements, could, within rather wide limits, exercise a decisive influence on the composition of the farm output.

(2) Incomes in Agriculture. The express purpose of Swedish pre-war agricultural policy was to ensure standards of living in agriculture in reasonable harmony with those enjoyed by other groups of the population. The transition to a war economy required a lowering of the standards for all groups. It should be a fundamental consideration behind all government controls in the fields of production, price, and distribution, the Business Cycle Institute suggested, that a lowering of the standard of living for those worst off in any segment of the population be, as far as possible, avoided. This principle has been a cornerstone in Swedish socio-economic policies of the last decades. Some of the lowest-income groups are found among the farming population.

(3) Inflationary Implications of Rising Farm Prices. In statements made to the Riksdag at the outbreak of the war, the Minister of Finance had repeatedly emphasized the need for stabilizing farm prices so as to avoid a vicious circle of rising food prices and rising wages. The impact of rising food prices on wages is immediate in Sweden, because most wages are automatically adjusted for changes in the official cost-of-living index. Since the outbreak of the war, however, full compensation has not been given for rising living costs.

Pointing to the fact that any increase in farm prices would normally give rise to at least an equal increase in food prices, the Business Cycle Institute outlined a price policy for farm products determined on purely price

stabilization grounds: "A compensatory price increase must not exceed the amount required to cover direct cost increases, resulting e.g. from a short supply of imported or native factors of production." This formulation has been severely criticized on the grounds that it would leave a door open for inflation. "The emphasis in the price control program must no longer be upon ~~that~~ price increases over a certain base period are justified but upon what prices are reasonable at the present date. This is of course true, whether or not prices have increased since the base period." 1/

Adjustment of Farm Price Policy to the Three Basic Considerations

The requirement of a sufficient production incentive to farmers and a reasonable income to this group pointed towards the same general level of prices. As long as farmers receive an income at parity with that obtainable in other economic activities, they might be expected to remain on the soil. The Swedish Food Commission has emphasized, however, that in computing the price compensation needed to meet increased costs in farming, care should be taken against too low an estimate for these increases. Further on, while a general price incentive to farming was frowned upon--in theory at least--it was recognized that incentive payments covering some very essential products

1/ Sune Carlson, "Price Supervision and Cost Accounting Principles in a Blockade Crisis" (in Swedish), in Ekonomisk Tidskrift, No. 4, 1939.

would be a useful instrument. 1/

Because of increased costs in agriculture and because of poor harvests, the requirements of a sufficient long-run supply of farm products and of a maintenance of the relative income position of farmers came into conflict with the needs for price stabilization. The solution of this conflict was found in a series of subsidies, both to producers and to consumers, averting or softening the impact on the retail price level of certain price increases on the farm level.

Prices and the Supply of Farm Products

The necessity of keeping a substantial portion of Swedish man-power mobilized as a neutrality guard or in war industries and the necessity of reserving a major portion of previously imported fuel oil for the armed forces prescribed narrow limits to the total agricultural production. Thus, the general emphasis in the farm program had to be on crops providing a high yield in calories as compared with the input of man-hours and other resources, with the supplementary requirement that essential vitamin needs be supplied through the commercial garden crops, through the equivalent of the American Victory gardens, and through vitamin preparations. The desired composition of output was attained through a positive program of farm price differentials and other measures to be described below.

1/ There has not been, in available source material, any explicit official policy statement as to whether or not it would be desirable to balance incentive payments on one crop with lower prices for other crops. In practice, the method of adjusting farm prices according to farm income considerations had such balancing effects. Compare also the following statement made in the Business Cycle Institute Report for the spring of 1940:

"In order to encourage certain production which at the present juncture is of central importance in our national economy, it may be convenient to permit prices for certain goods and services allowing a certain over-compensation for cost increases since the outbreak of the war. As far as agriculture is concerned, it may be desirable to allow higher prices on particularly important crops at the expense of other agricultural crops." (Underlining supplied)

The Swedish attitude has been, essentially, that the general price conditions for an adequate total supply of farm products are fulfilled through a guarantee of fair and equitable incomes to the farm population. The general level of farm prices is thus determined almost exclusively with a view to the desirable level of farm income rather than with reference to its effect upon total output. To ensure the desired level of output reliance has been placed on direct measures for the mobilization of man-power, equipment, feeds and fertilizer resources.

The most important of these measures, most of which were introduced at an early date, are the following: (1) The creation of "work blocks"; (2) the mobilization of potential labor resources through national service legislation and compulsory national work service in certain age groups; (3) Government imports and storage of fertilizers in anticipation of the war and the blockade; (4) Orders requiring certain farms to deliver specified quantities of feeds, and Government allocation of "feed grains" and other feeds as well as control over the use of "bread grains" for feeding purposes; (5) Government allocation of fertilizers; (6) Government allocation of fuel oil for tractors, and pressure on large-scale farmers to convert their equipment to the use of "charcoal gas."

The creation of work blocks deserves particular attention. It involves the combination of individual farms, on the average about 5 to a "block," in working units with a view to making the blocks self-sufficient in terms of manpower, tractive power, and other machinery and tools, and to securing the most economical and complete use of available resources. About 98 percent of all Swedish farms are now organized in blocks, and it is estimated that through this and other measures the labor shortage under total mobilization of the armed forces will have been reduced by more than 60 percent.

Preferential attention is given to the problems of small-scale farming. The creation of work blocks will remove one of the economic disadvantages in small-scale farming. The requirement that the large farms must be the ones to convert to charcoal gas fulfills the same general purpose, and so does the intensification of governmental consulting and information services to the farmers. Special provisions have also been made for the small farmers in the allocation of feeds and fertilizers. Finally, rebates on feed purchases and the general subsidy to milk producers are limited to a certain quantity for each producer.

A Positive Program for Farm Price Differentials

Although all stocks of grain were frozen in the fall of 1940, to be moved only according to Government instructions and at prices fixed by the Government, price measures originally were not used deliberately to influence the composition of the farm output. The succession of poor harvests in 1940 and 1941 and the prolongation of the war gave impetus to a positive program for farm price differentials.

A very interesting phase in this program was the fixation, in advance of the sowing season, of price differentials for major crops. This policy was adopted for the first time in 1942, when the following relations were established for the consumption year September 1, 1942 to August 31, 1943: (prices in ore per kilogram)

Black oats (basing price)	b
White oats	b plus .5
"Mixed grains"	b plus 2
Barley	b plus 5
Rye	b plus 8
Autumn Wheat	b plus 8
Spring wheat	b plus 9
Hay	.7 b

The value for b governing the general level of grain prices for the consumption year was to be determined on the basis of actual crop returns and of developments in farm costs so as to give parity income to the farmers.^{1/} The price for black oats as of January 1, 1943, was fixed at Kr. 19.50 for Southern Sweden and Kr. 20.75 for Northern Sweden.

The above price scale represented increased price differentials between "bread grains" and "fodder grains." The pre-war price differential between autumn wheat and rye was eliminated to encourage the growing of rye which had withstood the severe winters of 1940 and 1941 particularly well. A finer adjustment designed to promote the growing of spring wheat and barley was the premium of Kr. 40. for every hectare ^{2/} sown with spring wheat and of Kr. 50. for every hectare sown with barley. Such inducements had been instituted during the previous growing season, and are said to have brought results.

In the case of several crops other than grain crops, the Government has contracted to buy at a guaranteed minimum price. This holds true for potatoes (the guaranteed price varies between Kr. 11. in the fertile southern parts of the country and Kr. 15. in the northernmost provinces), sugar beets, peas, and the vegetable oil crops (rape, flax, mustard, and poppies). Generally, the

^{1/} cf. below.

^{2/} One hectare is equal to 2.471 acres.

Government contracts with individual farmers for the sowing of certain areas with these crops ("contract crops"), and is thus in a good position to know what prices will bring forth the desired supplies.

The supply of animal produce is governed by the almost complete allocation of feedstuffs and by varying the price differentials between the most important products, like meats, milk, butter, and eggs. The very detailed rules for the allocation of feedstuffs make allowance for the size of the farm, for the number of different kinds of livestock and poultry previously held on the farm, previous purchases of feedstuffs, etc. Special rations are given to small farms and farms which have suffered from unfavorable growing or harvesting conditions. The leading thought in the price program has been to increase the profitability of milk production as compared to other animal products. Thus, most of the compensation given to farmers for the poor harvests in 1940 and 1941 was in the form of subsidies to milk production. These will be described below.

Farm Prices and Farm Income: General Considerations.

During an emergency session in the fall of 1939, the Swedish Riksdag decided to allow certain general increases in the prices for farm products. Reasons cited in favor of these increases were cost increases and the necessity, in view of the blockade and war threats, to offer a sufficient incentive to farm production. At the same time, a special committee was appointed within the Food Commission to analyze changes in farm income and expenditures. This committee reported that price increases had fully compensated farmers for cost increases since the outbreak of the war.

The poor harvests in 1940 and 1941 gave rise to demands for further price relief to farmers. The leading idea in the program finally adopted was that, in years of poor harvests, farmers should accept a net income reduction cor-

responding to an estimated "normal deviation" for crop yields of 4 percent, but that they should receive full compensation for increases in direct costs. The prices established by the Government, in accordance with these principles, were based upon early estimates regarding 1940 crop returns and costs. The actual harvest yields proved much better than estimated, and instead of suffering a net reduction in incomes, farmers actually received more than "full income compensation" for reduced crop yields and cost increases. 1/

Although the outlook for the 1941 harvest was even worse than for the 1940 harvest, the same 96 percent compensation was agreed upon in principle. This time, however, this compensation was made dependent, within certain limits, upon actual physical returns from farming. The final adjustment was to be made through the milk subsidies, the basic subsidy being set at Kr. 45 million. Should the total quantity of milk delivered to dairies be larger than the quantity upon which this basic subsidy was predicated there was to be a downward adjustment in certain premiums payable on all milk. Should the deliveries be smaller there was to be a corresponding increase. The upper and lower limits of the subsidy were fixed at Kr. 53 and 37 million respectively. Even after these precautions, however, the 1941 result of all subsidies was to make farmers absorb only Kr. 37.3 million or about 2 percent of the losses attributable to poor crop yields instead of the desired 4 percent. This may be seen from the following table of total income and total costs in agriculture as reflected in the index for "Prices Paid and Prices Received by Farmers."

1/ An account of the computations on which the income adjustments were based is given below, pages 12-15.

Table I

Gross Income and Total Costs in Agriculture, 1938-1942
(Indices Sept. 1938 = Aug. 1939 = 100)

	<u>1939/40</u>	<u>1940/41</u>	<u>1941/42</u>
Gross Income	114.8	126.9	126.8
Total Costs	109.9	118.6	129.6

The program adopted for the consumption year September 1, 1942-August 31, 1943 provided, as already mentioned, that only the differentials between the various major crops should be fixed in advance of the growing season and that the actual prices should be announced in the fall of 1942 after preliminary crop reports had been received. The requirement that the farmer should absorb up to 4 percent of the losses resulting from a decrease in the total crop yields was the same as for the previous year.

Actual prices (i.e. not only differentials) for the consumption year ending August 31, 1944 will again be fixed in advance of the growing season. These prices, however, will be preliminary. They will be subject to adjustments bringing the total farm income within 4 percent of the accepted standard, in case the figures for this income based upon actual crop returns should be more than 4 percent either above or below the standards. This decision to substitute actual prices for differentials was apparently due to insistent pressure on the part of farm organizations. One of the consequences of this decision is that farmers are required to assume a limited risk that their incomes might fall below the standard, not only due to poor crop yields, but also due to increases in total farm costs or to a combination of these factors. On the other hand the farmers are allowed a chance for a limited increase in total income in the case

of the favorable development of either of these two factors. According to a statement made by the Temporary Government Agricultural Committee, these new provisions might be expected to make farmers particularly interested in the attainment of high production goals: "Such improvements in the crop results as were due to more intensive efforts on the part of farmers could not very well be expected to lead to a lowering of the farm price level." In other words, even though the intensity of the effort of the individual farmer would hardly be affected by fears that farmers as a group might receive no benefits from the generally increased effort, it is apparently regarded as unfair to deprive this group of the fruits of a generally increased effort.

Farm Prices and Farm Income: The Techniques of Adjustment

The Swedish Farmers' Association index for "Prices Paid and Prices Received by Farmers" as revised in accordance with proposals made by the Government, has been used as the principal standard in price adjustments. One of the most important revisions was the substitution of variable quantities for fixed quantities. This change was motivated both by frequent wartime changes in the composition of crops and the availability of different factors of production and by the principal purpose of the indices to serve as a guide to changes in farm income. A few remarks should be made regarding the adequacy of the indices in this respect.

The indices do not cover all items affecting the net income of farmers, and hence do not provide a measure for the "absolute profitability" of farming. Nevertheless, it was held that they would provide a fairly reliable indicator of changes in this profitability. Indeed, it was assumed, for purposes of practical policy, that an equal percentage increase in both indices meant a

corresponding rate of increase in net farm income. This equal percentage increase was termed "full compensation to farming." The question whether the idea of full compensation for cost increases was a reasonable policy standard will be discussed later.

One criticism against the index adjustment was the possibility of important divergent trends in income items omitted in the calculations, e.g. income from forest operations. It might of course be argued that separate adjustments could be made in prices for forest products, where the farm income aspects would be considered. The fact of the matter is that this aspect has not been a major factor in the determination of a desirable price level for forest products.

The further north one goes in Sweden, generally speaking, the more important becomes income from stumpage, log cutting and transporting in the total farm income. About one-half of all forest land in Sweden is owned by farmers. Forest operations, except for the cutting of fuel wood, have been on a reduced scale since the outbreak of the war due to the loss of export markets. This is reflected in the following table, showing changes in cash income and expenses for farms in major regions. The figures given refer to one typical size of farm only. The over-all indices show a very similar trend.

Table II

Cash Income and Expenditure in Swedish Farming, 1940 1/
(Index 1938 = 100)

Region	Income from Sales of Agricultural Products	Total Cash Income	Total Cash Expendi- ture
Plains of Southern and Central Sweden	120.4	119.6	114.8
Forest and Valley Regions of Southern and Central Sweden	124.4	116.5	117.1
Northern Sweden	149.9	95.5	99.6
All Sweden	127.0	112.4	112.1

It has been estimated that while the net income of farmers in southern Sweden increased by 23 percent between 1938 and 1940, the net income of farmers in northern Sweden showed an increase of only 2 percent, involving very inadequate compensation for the rising cost of living. Preferential prices and subsidies for the northern regions apparently did not materially alter the situation. This was all the more serious, since parts of the farm population in northern Sweden have the lowest standard of living in the country.

In the final analysis, the failure of the index adjustment to reflect changes in income from forest operations is only a special case of its basic limitation: The general indices only show whether full compensation for cost

1/ Source: "Konjunkturlaget Varen 1942" (Semi-annual Report of the Swedish Business Cycle Institute, Spring 1942) p. 42. Figures refer to farms of 5-10 hectares only. (One hectare is equal to 2.471 acres.)

increases and reduced crop yields has been received by farmers as a group. They do not indicate to what extent certain groups of farmers may have failed to gain full compensation. It is conceivable that hardships similar to those imposed upon forest-owning farmers may have been imposed upon farmers specializing in the growing of crops for which the prices established by the Government were less favorable than for other crops. This is recognized in the above mentioned report by the Special Agricultural Committee within the Food Commission. "The meaning of the conclusion that farming as a whole has received full compensation for cost increases is that certain farmers with relatively normal harvests (farmers in certain parts of the country) have enjoyed relatively large additions to incomes as compared with the pre-war period, while other farmers, notwithstanding subsidies, have undoubtedly suffered rather considerable cuts in their pre-war net incomes."

To meet some of the criticisms raised against the Government's price adjustment techniques, the Minister of Agriculture appointed a committee to suggest changes in the existing program. This committee was ordered to investigate, whether the indices used gave a reliable picture of cost and income changes in farming, and to give particular attention to changes in the profitability of various crops, and of different sizes of farms in different regions of the country. One of the problems to be analyzed was whether the advance fixation of guaranteed minimum prices for certain crops which can only be cultivated in certain parts of the country might not have resulted under existing adjustment procedures, in prices for other crops too low in relation to the costs of production.

Incomes of the Farm Population and of Industrial Labor

The question raised above regarding the implications of the choice of "full compensation" as a standard in farm price adjustments must now be considered. Unfortunately, there is very scant information in this country regarding the discussions and considerations which led to the adoption of this standard. Some conclusions may be drawn from a comparison between the development of farm incomes and incomes for other population groups. Even in this respect, however, available statistics are far from satisfactory.

It should first be observed that the incomes regulated through the farm price adjustments are those attributable to the ownership of land. The amounts accruing to farmers and to their employees as compensation for their labor are included in "prices paid by farmers" at the following values: 1/

	1938/39	1939/40	1940/41	1941/42
Income from labor in farming (millions of Kr.)	791.7	875.1	947.5	986.4
Income from labor in farming (index: 1938/39 = 100)	100.0	110.5	119.7	124.6

The increases since 1939 are largely attributable to the valuation of benefits in kind at prevailing retail levels. It is apparent that the incomes from farm labor have shown substantially the same development as incomes from the ownership of land. 2/

1/ One-third is estimated to represent wages paid to hired labor and the balance is income received by the farmers themselves.

2/ Cf. Table I.

The minimum average increase of 25 percent in the total income of the agricultural population corresponds to a 40 percent increase in the cost of living between July 1939 and April 1942 and increases in the hourly wage rates of industrial workers probably averaging about 20 percent. ^{1/} Industrial workers have, in general, received no income additions through longer hours. Instead, up to recently, hours have been below the pre-war average. While both groups have thus suffered cuts in their real income, the smaller sacrifices required from the farm population may be due to the fact that most of the low-income groups in Sweden are to be found in farming and to the vital necessity of ensuring an adequate farm supply. A final answer on this point would require a more intensive study of Swedish wartime economic policies than can be undertaken on the basis of material now available in this country.

Farm Prices and the Inflation Threat

The technique used in securing the desired income adjustments to farmers were outright subsidies, purchases of farm products by a Government agency at prices below its selling price to processors, or outright price increases. In this latter case, however, the effect of price increases upon the cost of

^{1/} The standards of adjustment agreed upon between the two national employer and labor organizations implied that industrial workers should absorb nearly 60 percent of the initial rise in the cost of living (attributable mainly to the rising import prices and to higher farm prices). In later adjustments, industrial workers have received full compensation for additional increases in the cost of living. The average absorption of increasing living costs--according to the standards adopted--would be in the neighborhood of 50 percent. A summary of these adjustments is given in "Price Control--The War Against Inflation" by Erik Kjellstrom and others.

living was generally cancelled through a subsidy at some later stage of processing or distribution, or at the consumer level. It is the pronounced policy of the Swedish Government that compensation to farmers for cost increases or lower crop yields should not generally take such a form as to cause an increase in the cost of foods to consumers. The following table is an attempt at a necessarily very much simplified summary of the subsidy program for the three years ending August 31, 1942: 1/

1/ Swedish Business Cycle Institute - "Reports on the Economic Situation, Fall. 1941." Figures for 1942 are estimates.

Table III

Farm Subsidies in Sweden, September 1939 - August 1942

Type of Subsidy	Total Subsidies Paid		
	Sept. 1939- Aug. 1940	Sept. 1940- Aug. 1941	Sept. 1941- Aug. 1942 <u>1/</u>
	millions of Sw. Crowns		
<u>All Subsidies</u>	<u>91.9</u>	<u>222.7</u>	<u>368.2</u>
<u>Grains and Fodder</u>			
Govmt. Grain Distribution Company Storage, Transportation & Adminis- trative Expenses	9.3	16.3 <u>2/</u>	11.6
Grinding Compensation to Millers	1.0	36.7	47.3
Deficit on Govmt. Purchases and Sales of Fodder	2.2	21.8	90.9
Area additions (Wheat and rye)	—	—	21.5
<u>Total Grains & Fodder</u>	<u>12.5</u>	<u>74.8</u>	<u>171.3</u>
<u>Dairy Products and Meats</u>			
Special Subsidy on Milk for Consumption	76.4	28.0	32.3
Poor Harvest Area Differentials	—	—	15.5
General Subsidy to Milk Producers	25.1	35.6	42.1
Dairy Subsidies	—	16.2	5.6
Export Premiums for Butter	20.6	—	—
Special Subsidy on Butter	.1	13.2	7.7
Storage Expenses for Butter	1.5	6.6	5.3
Consumer Rebates on Cooking and Eating Fats	—	45.4	60.0
Consumer Rebates on Milk	—	1.8	19.2
Storage Expenses for Eggs	—	.2	—
<u>Minus: Milk fees paid by dairies</u>	<u>45.0</u>	<u>1.4</u>	<u>—</u>
Storage and Preservation of Meats	.7	1.5	4.0
<u>Total Dairy Products & Meats</u>	<u>79.4</u>	<u>147.1</u>	<u>191.7</u>
<u>Fertilizer Subsidies</u>	<u>—</u>	<u>.8</u>	<u>5.2</u>

Footnotes to Page 19:

- 1/ Swedish Business Cycle Institute - "Report on the Economic Situation, Fall, 1941," Figures for 1942 are estimates.
- 2/ Includes Sw. Cr. 2 millions in outright subsidies.

The effect of taxes and subsidies upon the cost of living is illustrated in the following table which summarizes information contained in the Business Cycle Institute reports for the springs of 1941 and 1942:

Table IV

Changes in the Cost of Living for a Typical Family Unit,
and Effects of Taxes and Subsidies upon this Cost
1939 - 1942

Budget Item	Percent of Total Expenditure	Percentage Price Increase		Changes in Kroner between Jan. 1939 and Apr. 1942				
		1939	1941	1942	Total: Tax	Sales: Taxes	Other: Taxes	Total: Subsidies & Rebates
<u>Ag. Products</u>	<u>30.4</u>	<u>30</u>	<u>33</u>	<u>+</u> <u>356</u> <u>+</u>	<u>27</u> <u>-</u>	<u>31</u> <u>-</u>	<u>4</u> <u>-</u>	<u>228</u>
Milk	6.8	20	15	<u>+</u> <u>46</u>	<u>--</u> <u>-</u>	<u>26</u> <u>-</u>	<u>26</u> <u>-</u>	<u>81</u>
Butter	2.7	1	8	<u>+</u> <u>8</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>71</u>
Cheese	1.3	62	58	<u>+</u> <u>32</u> <u>+</u>	<u>4</u>	<u>--</u> <u>+</u>	<u>4</u>	<u>6</u>
Eggs	2.2	69	54	<u>+</u> <u>20</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Potatoes	1.3	23	73	<u>+</u> <u>41</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Meal & Bread	6.0	21	22	<u>+</u> <u>50</u>	<u>--</u> <u>-</u>	<u>5</u> <u>-</u>	<u>5</u> <u>-</u>	<u>70</u>
Meat exc. Pork	3.6	37	58	<u>+</u> <u>66</u> <u>+</u>	<u>9</u>	<u>--</u> <u>+</u>	<u>9</u>	<u>--</u>
Pork	4.6	43	57	<u>+</u> <u>64</u> <u>+</u>	<u>9</u>	<u>--</u> <u>+</u>	<u>9</u>	<u>--</u>
Sugar	1.7	22	31	<u>+</u> <u>22</u> <u>+</u>	<u>4</u>	<u>--</u> <u>+</u>	<u>4</u>	<u>--</u>
Yellow Peas	.2	83	117	<u>+</u> <u>7</u> <u>+</u>	<u>1</u>	<u>--</u> <u>+</u>	<u>1</u>	<u>--</u>
<u>Other Foods</u>	<u>6.3</u>	<u>50</u>	<u>77</u>	<u>+</u> <u>213</u> <u>+</u>	<u>21</u> <u>+</u>	<u>2</u> <u>+</u>	<u>23</u>	<u>-</u> <u>39</u>
Margarine	1.3	12	23	<u>+</u> <u>14</u>	<u>--</u> <u>-</u>	<u>5</u> <u>-</u>	<u>5</u> <u>-</u>	<u>39</u>
Fish	1.2	114	180	<u>+</u> <u>92</u> <u>+</u>	<u>7</u>	<u>--</u> <u>+</u>	<u>7</u>	<u>--</u>
Fruits	1.7	48	79	<u>+</u> <u>58</u> <u>+</u>	<u>7</u>	<u>--</u> <u>+</u>	<u>7</u>	<u>--</u>
Coffee	1.0	61	62	<u>+</u> <u>34</u> <u>+</u>	<u>4</u> <u>+</u>	<u>5</u> <u>+</u>	<u>9</u>	<u>--</u>
White Cabbage	.2	14	63	<u>+</u> <u>5</u> <u>+</u>	<u>1</u>	<u>--</u> <u>+</u>	<u>1</u>	<u>--</u>
Low-Alcohol Beer	.7	30	32	<u>+</u> <u>10</u> <u>+</u>	<u>2</u> <u>+</u>	<u>2</u> <u>+</u>	<u>4</u>	<u>--</u>
Fuel	3.1	48	65	<u>+</u> <u>87</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Housing	13.7	3	1	<u>+</u> <u>6</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Clothing	10.3	55	71	<u>+</u> <u>273</u> <u>+</u>	<u>33</u>	<u>--</u> <u>+</u>	<u>33</u>	<u>--</u>
Shoes	3.6	36	47	<u>+</u> <u>62</u> <u>+</u>	<u>10</u>	<u>--</u> <u>+</u>	<u>10</u>	<u>--</u>
Taxes	6.6	30	66	<u>+</u> <u>161</u>	<u>--</u> <u>+</u>	<u>161</u> <u>+</u>	<u>161</u>	<u>--</u>
<u>Other Expenses</u>	<u>26.0</u>	<u>23</u>	<u>33</u>	<u>+</u> <u>322</u> <u>+</u>	<u>25</u> <u>+</u>	<u>83</u> <u>+</u>	<u>108</u>	<u>--</u>
of which Amusement	.9	16	25	<u>8</u>	<u>--</u> <u>+</u>	<u>4</u> <u>+</u>	<u>4</u>	<u>--</u>
Tobacco	1.0	39	76	<u>29</u>	<u>--</u> <u>+</u>	<u>26</u> <u>+</u>	<u>26</u>	<u>--</u>
Alcohol	1.7	68	94	<u>59</u>	<u>--</u> <u>+</u>	<u>52</u> <u>+</u>	<u>52</u>	<u>--</u>
Tot. Exp. (Kr.)	<u>3,710</u>	<u>29</u>	<u>40</u>	<u>1480</u> <u>+</u>	<u>116</u> <u>+</u>	<u>215</u> <u>+</u>	<u>331</u>	<u>-</u> <u>267</u>

The above table shows that in order to maintain its pre-war standard of living a typical family would have had to increase its expenditures from Kr. 3,710.- to Kr. 5,190, or by about 40 percent. Of this increase, about 25 percent is due to rising retail prices for farm products and 15 percent to rising prices for other foods. Another 20 percent is accounted for by increasing expenditures for clothing and shoes.

The method of computation may be said to exaggerate the effect of rising income taxes upon the cost of living. These taxes were computed on the assumption that full income compensation was given for the rising cost of living. Had the taxes been computed on the January, 1942, income level, the increases since July 1939, would have amounted to only Kr. 113 instead of Kr. 161, and increases in total taxes and subsidies would have approximately balanced.

The best picture of the relative magnitude of increases in subsidy payments and indirect taxes and their anti-inflationary or inflationary implications is perhaps obtained by making the assumption that either or both of these increases were cancelled. This is how the cost-of-living index in 1942 (1939 = 100) would change with the following assumptions (The lower figure for direct taxes referred to in the preceding paragraph was used in these computations):

Actual increases in subsidies and indirect taxes	138
No increased subsidies, actual increases in indirect taxes	146
Increased subsidies but no increases in indirect taxes	134
No increased subsidies and no increased indirect taxes	141

It should be noted that all subsidies affecting food prices were not considered in the above computations. Thus no attempt was made to judge the effect of the very considerable sums 1/ which were spent to keep down the

1/ cf. above p. 19

prices paid by farmers for fodder and fertilizers. Neither do the computations reflect increased government subsidies for private housing, resulting in the stabilization of rents at approximately the 1939 level.

In evaluating the effect of tax increases and subsidy increases upon the cost of living, it is natural also to consider their incidence upon goods of various degrees of essentiality and the extent, to which they have burdened or benefited different income groups. It can be seen from Table IV that not quite one-half of the tax increases falls on the income tax, while very close to one-third represents taxes on items which are not generally classified among essentials of living (amusements, coffee, alcoholic beverages, and tobacco). There is a net decrease in the taxes on agricultural foods, most conspicuous in the case of milk. On the other hand, all subsidies are for essential items (milk, butter, cheese, and bread). Finally, a very considerable part of the subsidies for milk and edible fats are rebates, for which only the poorest third or so of the population qualifies, and then only upon the application, in each case, for a rebate card.

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